

AR26

**Sunlite Oil  
Company  
Limited**

Annual  
Report 1976



## To The Shareholders

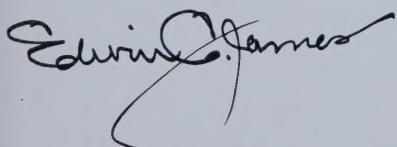
Sunlite Oil Company Limited, during fiscal 1976, had record revenues from oil and gas production of \$1,139,046. It is expected that income from production will continue to increase substantially over the next year as the company's 1976 discoveries are placed on stream and the full effect of twelve months of production from the Helmet Gas Field in British Columbia is felt.

The company also expended a record amount of \$4 million during 1976 in exploration and development, including 15 exploratory and 12 development wells in Canada, 6 exploratory wells in the North Sea, one exploratory well in the Persian Gulf and one in the U.S. The Canadian program was particularly successful with the completion of ten gas discoveries. In the North Sea one gas discovery was completed in the southern gas area in the U.K. sector, and a confirmation gas well was completed in the Dutch sector. In addition, the company participated in an oil discovery in the Persian Gulf. The net effect of this activity is the addition of gas reserves which will contribute significantly to the company's future income.

During the next twelve months three exploratory wells are programmed on Sunlite interest blocks in the U.K. sector of the North sea (Blocks 15/8, 28/5 and 16/26 — Sunlite 10 per cent), and two exploratory wells are scheduled to be drilled in the German sector (Blocks H/9 and J/4 — Sunlite 7-1/2 per cent).

With this and our continuing exploration programs in Canada and in the U.S. we expect an active and successful year.

For the Board of Directors:



EDWIN C. JAMES  
President  
December 6, 1976

## Financial Review

Revenues from oil and gas sales increased 60% to \$1,139,046 from \$710,468 in fiscal 1975. This increase reflects principally income from the Helmet gas field which was placed on production in early 1976. Investment income was \$214,989, approximately 25% less than in fiscal 1975, since funds were withdrawn from investments and used in our exploration programs in the North Sea and elsewhere. Cash flow from operations increased to \$615,112 for 1976 from \$221,053 in the previous year.

A net loss for the year of \$1,440,000 or \$0.50 per share was primarily a result of the large exploration expenditures in the North Sea.

Fixed asset additions totalling \$3,000,000 which mainly reflect successful exploration and development during 1976 are summarized as follows:

Costs of drilling, completion and flowlines for our Helmet Field in Northeastern B.C. amounting to \$430,000 (financing was provided by gas contract advances); costs of other Canadian drilling (9 exploratory, 12 development wells) amounting to \$485,000; cost of drilling a Dutch North Sea gas well P/6-3 and a U.K. North Sea gas discovery well 48/12-2 amounting to \$660,000 and \$350,000 respectively; additional costs of an oil discovery well in Ras Al Khaimah amounting to \$200,000 (1975 - \$445,000); lease acquisition costs in Alberta and in the Texas Austin Chalk trend amounting to \$120,000 and \$150,000 respectively; and \$700,000 capitalized for an exploratory dry hole, well 16/26, which was an earning well.

Dry hole costs principally reflect the expenditure for three unsuccessful North Sea exploratory wells amounting to \$800,000; five abandonments in Alberta amounting to \$100,000 and the abandonment of a test on the company's acreage on the Austin Chalk trend in southwest Texas amounting to \$75,000.

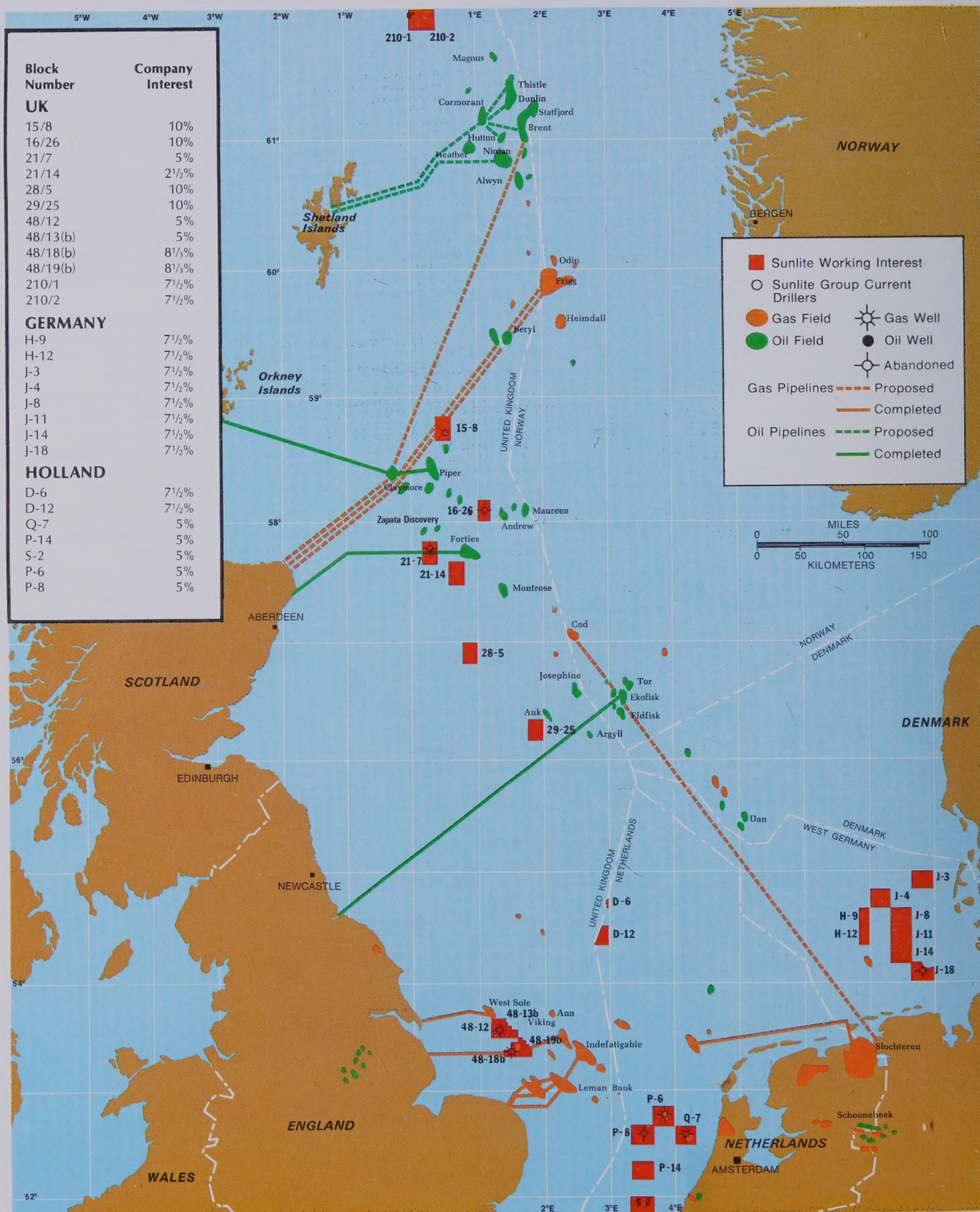
Exploration costs charged to expense include seismic costs in preparation for the Fifth Round of Bidding for U.K. North Sea Blocks and seismic programs on the Jade Plate area of the German North Sea and on our Benton area of Alberta.

Property surrenders and write-offs reflect the cost for U.K. North Sea Block 21/7 amounting to \$490,000, the cost of our North Dakota acreage amounting to \$116,000, the write-off of our mineral properties in the La Ronge area of Saskatchewan amounting to \$193,000 and the write-off of other acreage in Canada and the U.S.A. amounting to \$110,000.

Working capital at September 30, 1976 is \$1,500,000, a decrease of \$1,450,000 for the year.

As shown by the notes to the financial statements, the company has obligations for work commitments and contingent liabilities totalling \$1,600,000.







# Exploration Activities

## International

Sunlite participated in 6 exploratory wells, 2 of which resulted in discoveries and 1 important confirmation well which was successful. In total we spent approximately \$2 million dollars for our share of these tests which will be reviewed individually below. All of the wells were drilled in offshore areas.

One factor which has significantly affected your company is the rapidly escalating costs of marine drilling. Since original budgets were prepared many of our well costs have risen at least 50%.

In spite of problems the North Sea has justified our expectations and is on the threshold of joining the world's major producing areas. We hope to continue to participate further in this region within the limits of our resources.

## United Kingdom

Sunlite participated in three wells:

1. 21/7-2 (Sunlite 5%) was drilled on a prominent seismic feature, with Home Oil Company as operator, to a depth of 10,600 feet. This well found the structure to be a salt dome; however, the prospective Mesozoic objectives were not present.
2. 16/26-1 (Sunlite 10%) was drilled on an excellent horst feature on the Flaven spur. A thick prospective Mesozoic (Jurassic and Triassic) section was penetrated to a depth of 13,000 feet. While encouraging shows of oil were encountered, the well tested water. Another well will be drilled on this block at a later date to test a Cretaceous prospect.

3. 48/12-2 was drilled on a Rotliegendes seismic structure south of the West Sole field in the Southern Gas Area. This well found the pay sands as anticipated and tested gas from each of two zones in the Rotliegendes formation at rates of 12.2 and 12.4 million cubic feet per day. Current evaluation of the 48/12-2 structural complex leads us to believe that the reservoir may be in the 500 billion cubic feet class. Further development and eventual economics will depend on gas pricing, pipeline, and market studies which are now in progress. Sunlite's interest in this block is initially 10% but will decrease to 5% after recovery of 1000% of its investment.

In addition to these wells we expect to participate in a Paleocene test on Block 15/8 in late 1976, and a Permian test on Block 28/5 early in 1977.

## Germany

A Bunter sand test (Austral operator) was drilled on a large salt dome feature on Block J/18. This test (5,900 feet T.D.) found the Bunter well developed but water bearing, probably due to late structural growth.

A Bunter test will also be drilled on the H/9 - H/12 structure with Kewanee Oil Company as operator (Sunlite 7-1/2% interest) in the spring of 1977.

Tests by other groups are expected to evaluate other Sunlite holdings in the area.

## Holland

Sunlite participated in two wells during the year:

1. P/6-3 (Sunlite paid 10% to earn 5%) was drilled as a step-out confirmation Rotliegendes-Zechstein test to a depth of 11,718 feet. The well found the Rotliegendes to be located at a favorable structural position and to be gas saturated, but due to low

permeability a commercial completion could not be effected. Further tests in the Zechstein 10,545 feet to 10,680 feet developed a gas flow of 35 million cubic feet per day. The block is now believed to contain potentially economic gas reserves in the Zechstein in the 500 billion cubic feet category. The operator has proposed additional seismic work which may lead to another test well in 1977.

2. P/8-1 (Sunlite paid 10% to earn 5%) was drilled on a well defined seismic feature and tested the Rotliegendes to a depth of 7,214 feet. The well found the objective as predicted structurally, but it was water bearing due to late structural growth or leakage across certain trapping faults.

## Arabian Gulf

Sunlite participated in a well (1.875%) drilled in the Emirate of Ras Al Khaimah on a large feature east of the Mubarek field in Sharjah. This deep expensive well (16,050 feet T.D.) found production in the Ilam and Thamamma zones of the Cretaceous. Because of mechanical problems this well was never conclusively tested at commercial rates (short term test rates were 1000 to 5000/BOPD). Sunlite has reduced its interest to a .4% working interest and expects to participate in two more wells, one of which is currently drilling.







## Canada

Your company participated with others in drilling 27 wells in Western Canada during the period under review. This total is comprised of 12 development wells at Hamilton Lake which were completed as oil producers, 9 exploratory wells spread throughout Alberta which were completed as gas producers and 1 exploratory test drilled and completed as a gas discovery in the Helmet area of British Columbia. The remaining 5 wells were exploratory abandonments in Alberta. In addition, there were 19 water injection wells drilled in the Hamilton Lake Field area as part of an ongoing program to maintain the successful waterflood initiated a few years ago.

Sunlite was successful in Canada in increasing its oil and gas production and added substantially to the Company's proven reserves.

### Helmet

The company has been very successful in the Helmet area of Northeastern British Columbia. In April of this year we placed four Slave Point gas wells on production with total daily production of 16 million cubic feet of gas. Sunlite's interest in this production currently averages approximately 20%.

During the past year, Sunlite (18%) participated in drilling a discovery well in the Jean Marie section of Mississippian age. This is the first such well in the immediate Helmet area. It is expected that this will be placed on production in the spring of 1977.

To the north of the existing Helmet development, Sunlite has a 2.5% interest in a 1,300 acre block. The operator plans to shoot new seismic lines with the view to drilling its first well in the latter part of this winter drilling season.

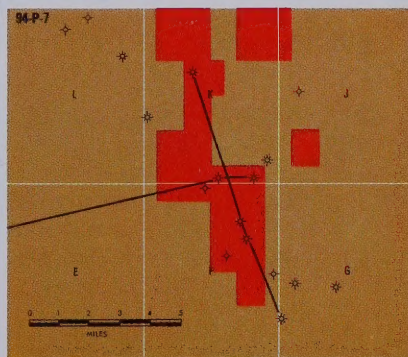
### Akuinu

Your company drilled and completed Akuinu 7-10-67-3 as a dual zone gas well which flowed at rates in excess of 1.5 million cubic feet per day. The well is situated south of the Mitsue Field and west of the Big Bend gas producing area in the central part of the province. Sunlite's interest in this well is 100%.

Sunlite joined with another company and purchased a gas license immediately south of the well. We expect to drill three or four wells (Sunlite 50%) on the license this winter drilling season.

Sunlite also participated in a gas discovery 8-1/2 miles north northeast of the Akuinu test. Our interest in this test which was also drilled on pooled acreage is 2.5%. The well is located between two shut in gas wells drilled in 1970 in which your company has interests of 7.5% and 17%.

### Helmet



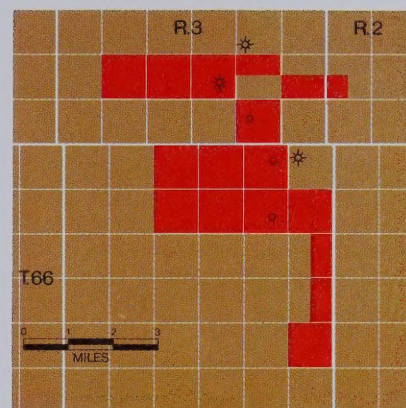
■ Sunlite Working Interest

★ Gas Well

⊙ Abandoned

— Pipeline

### Akuinu

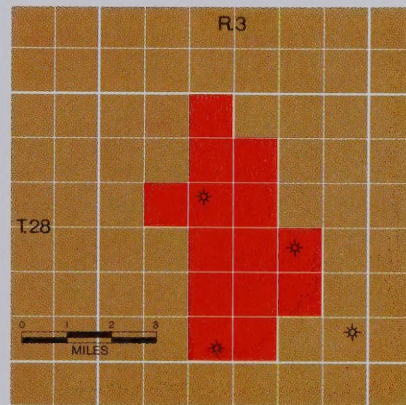


■ Sunlite Working Interest

○ Location

★ Gas Well

### Benton



■ Sunlite Working Interest

★ Gas Well

### Benton

Sunlite participated in drilling two dual zone gas discoveries (Sunlite 40%) in the Benton area of southeastern Alberta. The first discovery well, Dorchester Sunlite Benton 7-4-28-3, tested 4.5 million cubic feet per day and is located 3-1/2 miles south of our currently producing gas well, Benton 10-21-28-3. A development well is



planned for next summer. The second dual zone gas discovery, located approximately 2-1/2 miles southeast of Benton 10-21, was Dorchester Sunlite Benton 11-14-28-3 which tested 5.3 million cubic feet per day. These wells can be placed on production immediately by using existing production facilities.

### Beaufort Sea

Dome Petroleum Limited, drilling on lands farmed out from a group of companies has made a gas discovery at one of two wells drilled during the past summer drilling season in the Beaufort Sea. A press release stated that gas was encountered in a sand formation at approximately the 9,800 foot level at the well, Dome Kingmiark K-91. This well is located 35 miles north of the Northwest Territories mainland and the same distance south of a spread of approximately three million acres on which Sunlite holds a 1% gross overriding royalty.

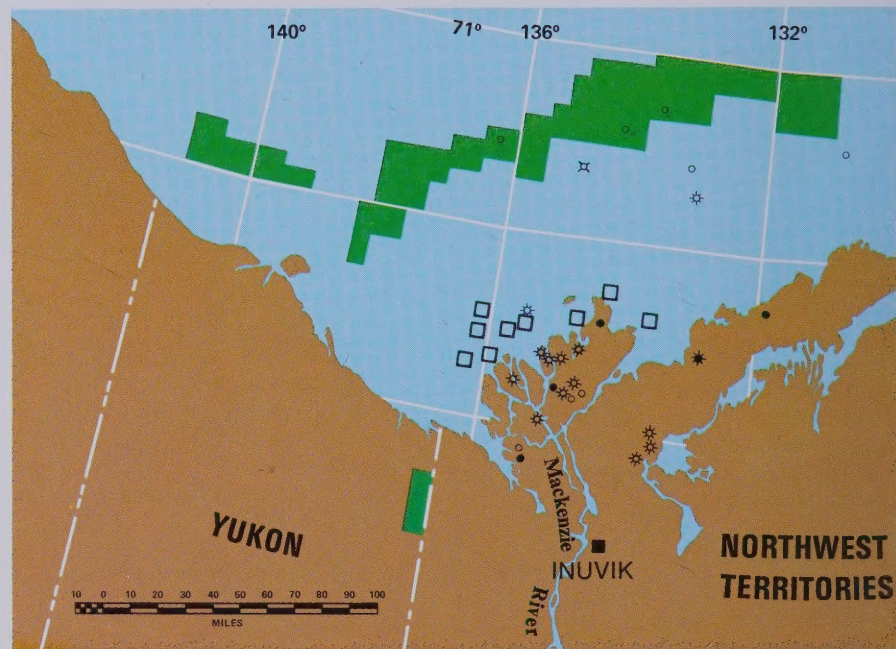
The second test was junked and abandoned at a shallow depth due to a high pressure fresh water flow.

Five new wells have been licensed and are slated for drilling next year (see map). It will be noted that three of these tests are situated on Sunlite royalty acreage.

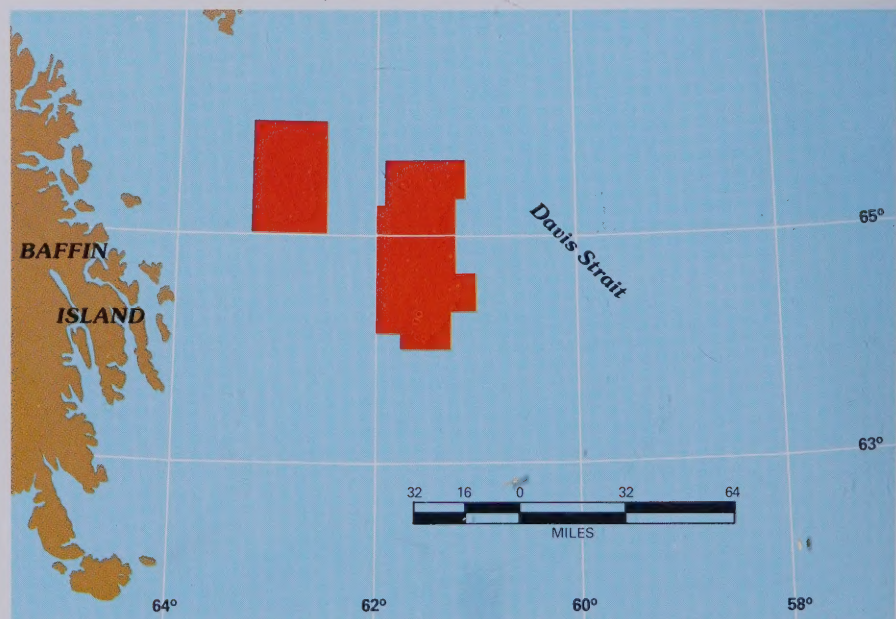
### East Coast Canada/Baffin Island

Sunlite holds a 20.17% interest in 1,834,354 acres in the Baffin Bay area offshore eastern Canada. During the past year Canada-Cities Service, Ltd. as operator for the group completed ocean floor surveys covering locations for exploratory tests. The extensive geophysical work done in previous years has delineated several very large structures on our holdings. The group is currently discussing a possible exploratory drilling program to evaluate these prospects over the next two years.

Beaufort Sea



- Sunlite Royalty Interest
- ☼ Gas Well
- Man-made Islands
- Oil Well
- Location or Drilling Well
- ⊗ Abandoned



- Sunlite Working Interest



## Financial Statements

Consolidated Balance Sheet

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Consolidated Statement of Earnings

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Consolidated Statement of Changes in Financial Position

Notes to Consolidated Financial Statements

Auditors' Report



## Consolidated Balance Sheets

As At September 30, 1975 and 1976

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### ASSETS

|                                                                                                 | 1976                       | 1975                       |
|-------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>CURRENT ASSETS</b>                                                                           |                            |                            |
| Cash .....                                                                                      | \$ 536,391                 | \$ 2,110,697               |
| Marketable Securities, at lower of cost and market .....                                        | 289,431                    | 248,880                    |
| Accounts Receivable (Notes 2 and 3) .....                                                       | 863,332                    | 1,117,628                  |
|                                                                                                 | <u>1,689,154</u>           | <u>3,477,205</u>           |
| <br>PROMISSORY NOTES (Note 3) .....                                                             | <br><u>731,100</u>         | <br><u>966,700</u>         |
| <br><b>FIXED ASSETS, at cost (Notes 1 and 4)</b>                                                |                            |                            |
| Petroleum and natural gas leases, and rights<br>together with development and equipment thereon |                            |                            |
| Producing .....                                                                                 | 3,219,014                  | 2,174,925                  |
| Accumulated depletion and depreciation .....                                                    | 627,703                    | 389,717                    |
|                                                                                                 | <u>2,591,311</u>           | <u>1,785,208</u>           |
| Non-Producing                                                                                   |                            |                            |
| Leases .....                                                                                    | 2,182,260                  | 1,856,007                  |
| Royalty Rights .....                                                                            | 151,937                    | 209,892                    |
| Capped wells and work in progress .....                                                         | 3,046,735                  | 2,136,547                  |
|                                                                                                 | <u>7,972,243</u>           | <u>5,987,654</u>           |
| Other mineral rights, including development .....                                               | —                          | 189,690                    |
|                                                                                                 | <u>7,972,243</u>           | <u>6,177,344</u>           |
| <br>OTHER ASSETS .....                                                                          | <br><u>19,672</u>          | <br><u>107,846</u>         |
|                                                                                                 | <u><u>\$10,412,169</u></u> | <u><u>\$10,729,095</u></u> |



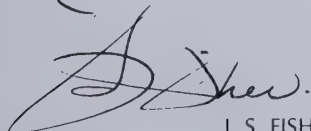
## LIABILITIES

|                                                   | 1976                | 1975                |
|---------------------------------------------------|---------------------|---------------------|
| CURRENT LIABILITIES                               |                     |                     |
| Accounts Payable .....                            | \$ 175,391          | \$ 516,151          |
| ADVANCES AND DEFERRED REVENUE (Note 5) .....      | 529,778             | 246,914             |
| DEFERRED INCOME TAXES (Note 1) .....              | 428,251             | 680,021             |
| SHAREHOLDERS' EQUITY                              |                     |                     |
| CAPITAL STOCK (Note 6)                            |                     |                     |
| Authorized                                        |                     |                     |
| 6,000,000 shares without nominal or par value     |                     |                     |
| Issued                                            |                     |                     |
| 2,975,813 shares (2,782,813 shares in 1975) ..... | 11,217,125          | 9,781,405           |
| DEFICIT .....                                     | (1,938,376)         | (495,396)           |
|                                                   | 9,278,749           | 9,286,009           |
|                                                   | <u>\$10,412,169</u> | <u>\$10,729,095</u> |

Signed on behalf of the Board:



E. C. JAMES, Director



J. S. FISHER, Director



## Consolidated Statements of Earnings

For The Years Ended September 30, 1975 and 1976

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|                                                                             | 1976                        | 1975                       |
|-----------------------------------------------------------------------------|-----------------------------|----------------------------|
| REVENUE                                                                     |                             |                            |
| Oil and Gas Sales .....                                                     | \$ 1,139,046                | \$ 710,468                 |
| Property Sales .....                                                        | 81,514                      | —                          |
| Investments .....                                                           | 214,989                     | 267,234                    |
| Other .....                                                                 | 3,659                       | 4,292                      |
|                                                                             | <u>1,439,208</u>            | <u>981,994</u>             |
| EXPENSE                                                                     |                             |                            |
| Operating .....                                                             | 185,135                     | 96,315                     |
| General and Administrative .....                                            | 532,592                     | 444,903                    |
| Carrying Charges on Non-Producing Properties .....                          | 68,636                      | 131,699                    |
| Dry Hole Costs .....                                                        | 968,787                     | 274,812                    |
| Exploration .....                                                           | 289,515                     | 110,522                    |
| Property Surrenders and Write-Offs .....                                    | 910,521                     | 498,036                    |
| Depletion and Depreciation .....                                            | 239,159                     | 102,324                    |
|                                                                             | <u>3,194,345</u>            | <u>1,658,611</u>           |
| Loss Before Income Taxes .....                                              | <u>(1,755,137)</u>          | <u>(676,617)</u>           |
| Recovery of Income Taxes                                                    |                             |                            |
| Current .....                                                               | 65,533                      | 40,000                     |
| Deferred .....                                                              | 246,624                     | 219,041                    |
|                                                                             | <u>312,157</u>              | <u>259,041</u>             |
| LOSS FOR THE YEAR .....                                                     | <u><u>\$(1,442,980)</u></u> | <u><u>\$ (417,576)</u></u> |
| LOSS PER SHARE (Based upon weighted<br>average of shares outstanding) ..... | <u><u>\$( .50)</u></u>      | <u><u>\$ ( .16)</u></u>    |

## Consolidated Statements of Deficit

For The Years Ended September 30, 1975 and 1976

|                                    | 1976                        | 1975                       |
|------------------------------------|-----------------------------|----------------------------|
| DEFICIT AT BEGINNING OF YEAR ..... | \$ (495,396)                | \$ (77,820)                |
| Loss for the year .....            | (1,442,980)                 | (417,576)                  |
| DEFICIT AT END OF YEAR .....       | <u><u>\$(1,938,376)</u></u> | <u><u>\$ (495,396)</u></u> |

## Consolidated Statements of Changes in Financial Position

For The Years Ended September 30, 1975 and 1976

|                                                                                                              | 1976                 | 1975         |
|--------------------------------------------------------------------------------------------------------------|----------------------|--------------|
| WORKING CAPITAL DERIVED FROM                                                                                 |                      |              |
| Loss for the year .....                                                                                      | <b>\$(1,442,980)</b> | \$ (417,576) |
| Add items not affecting working capital .....                                                                | <b>924,308</b>       | 142,191      |
|                                                                                                              | <b>( 518,672)</b>    | (275,385)    |
| Add property acquisitions, dry hole costs<br>and exploration expenditures charged to operations .....        | <b>1,133,784</b>     | 496,438      |
| Working capital derived from operations before dry<br>hole, property acquisition and exploration costs ..... | <b>615,112</b>       | 221,053      |
| Reduction in notes receivable .....                                                                          | <b>309,450</b>       | 62,650       |
| Gas contract advances and prepaid royalties, net .....                                                       | <b>360,241</b>       | 246,914      |
| Issue of capital stock (Note 6) .....                                                                        | <b>1,435,720</b>     | 1,337,700    |
|                                                                                                              | <b>2,720,523</b>     | 1,868,317    |
| WORKING CAPITAL APPLIED TO                                                                                   |                      |              |
| Dry hole costs .....                                                                                         | <b>954,754</b>       | 214,620      |
| General exploration costs .....                                                                              | <b>179,030</b>       | 110,522      |
| Property acquisitions charged to expense .....                                                               | <b>—</b>             | 171,296      |
|                                                                                                              | <b>1,133,784</b>     | 496,438      |
| Fixed assets (Note 4) .....                                                                                  | <b>3,034,030</b>     | 1,916,521    |
| Other .....                                                                                                  | <b>—</b>             | 4,833        |
|                                                                                                              | <b>4,167,814</b>     | 2,417,792    |
| DECREASE IN WORKING CAPITAL .....                                                                            | <b>(1,447,291)</b>   | (549,475)    |
| Working capital at beginning of year .....                                                                   | <b>2,961,054</b>     | 3,510,529    |
| WORKING CAPITAL AT END OF YEAR .....                                                                         | <b>\$ 1,513,763</b>  | \$2,961,054  |



**Notes to Consolidated Financial Statements**

For the Years Ended September 30, 1975 and 1976

**NOTE 1 - ACCOUNTING POLICIES****Principles of Consolidation**

The consolidated financial statements include the accounts of the company's wholly-owned subsidiaries, Sunlite International Inc., and Sunlite Oil Company (U.K.) Limited.

Amounts in foreign currency are converted to Canadian dollars on the following bases:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
- (ii) Fixed assets and related depreciation, at the rate of exchange at the date of acquisition.
- (iii) Other expenses and revenues, excluding depletion and depreciation which are converted at the rate of exchange applicable to the related asset, at the average rate of exchange for the year.

**Petroleum and Natural Gas Properties**

The cost of acquisition of leases and royalty rights, including drilling expenditures and exploratory dry holes which earn an interest, are capitalized. Costs are charged to earnings when properties are surrendered or are determined to be of decreased value. The costs of producing leases and royalty interests are amortized using the unit of production method.

Exploration expenses, other than dry holes which earn an interest, and carrying charges of both producing and non-producing properties are charged to earnings as incurred. The costs of drilling a productive well, including the cost of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to earnings when determined to be dry.

**Other Mineral Rights**

The costs of acquisition, evaluation and development of mineral properties are capitalized. Such costs will be amortized using the unit of production method or, when properties are proven to be uneconomical, they are charged to earnings.

**Income Taxes**

The companies follow the tax allocation method of accounting for income taxes under which the income tax provision is based upon earnings reported in the accounts.

**NOTE 2 - ACCOUNTS RECEIVABLE**

Included in accounts receivable at September 30, 1975 and 1976, is an amount of \$190,000 U.S. representing the amount due on sale of mineral properties. During October, 1971, the company commenced legal action to collect the amount. Counsel for the company has advised that, in their opinion, the claim is valid.

At September 30, 1975 accounts receivable included an amount of \$59,400 representing income taxes paid as a result of a reassessment of 1973 taxes. During 1976, an appeal of the reassessment resulted in a refund to the company of \$57,600.

**NOTE 3 - PROMISSORY NOTES**

|                                                                                                                                       | <u>1976</u>             | <u>1975</u>              |
|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------------------------|
| Due from officers and directors in 1977 and 1978,<br>non-interest bearing .....                                                       | <b>\$340,000</b>        | \$ 340,000               |
| Non-interest bearing notes, receivable in equal annual installments<br>to July 1, 1980 (less discount for 10% imputed interest) ..... | <b>642,800</b>          | 768,950                  |
|                                                                                                                                       | <b>982,800</b>          | 1,108,950                |
| Current maturity included in accounts receivable .....                                                                                | <b>251,700</b>          | 142,250                  |
|                                                                                                                                       | <b><u>\$731,100</u></b> | <b><u>\$ 966,700</u></b> |

**NOTE 4 - FIXED ASSETS**

During the year exploratory dry hole costs which earned an interest were capitalized in the amount of \$712,000 (1975 - \$422,000).

**NOTE 5 - ADVANCES AND DEFERRED REVENUE****Gas Contract Advances**

The company has received advances on future gas sales to enable it to explore and develop a natural gas property. Advances net of repayments at September 30, 1976 total \$529,778 (1975 - \$169,538), are repayable from 50% of future production from certain wells and are secured by the specified properties.

**Prepaid Royalties**

At September 30, 1975 the company had received \$77,376 in prepaid royalties pursuant to an exploration and option agreement. During the year, the option expired and accordingly, the amounts received were included in income for the year.

## NOTE 6 - CAPITAL STOCK

Changes in capital stock during the years ended September 30, 1975 and 1976 were as follows:

|                                                                                         | Number of<br>Shares | Consideration |
|-----------------------------------------------------------------------------------------|---------------------|---------------|
| Balance at September 30, 1974.....                                                      | 2,597,099           | \$8,443,705   |
| Shares issued pursuant to subscription<br>agreement, at Canadian dollar equivalent..... | 185,714             | 1,337,700     |
| Balance at September 30, 1975.....                                                      | 2,782,813           | 9,781,405     |
| Private Placement to finance North Sea drilling.....                                    | 30,000              | 148,500       |
| Shares issued pursuant to subscription agreement,<br>at Canadian dollar equivalent..... | 162,500             | 1,286,220     |
| Shares issued on exercise of stock option.....                                          | 500                 | 1,000         |
| Balance at September 30, 1976.....                                                      | 2,975,813           | \$11,217,125  |

### a. Share Subscription Agreements

Pursuant to an agreement signed on March 25, 1974, Mesa Petroleum Co. agreed to purchase an aggregate of 564,881 common shares of Sunlite in the following amounts on the following dates and at the following prices:

- (i) 216,664 shares at \$6.00 (U.S.) cash per share on May 8, 1974
- (ii) 185,714 shares at \$7.00 (U.S.) cash per share on or before May 8, 1975
- (iii) 162,500 shares at \$8.00 (U.S.) cash per share on or before May 8, 1976

All shares were issued and paid for in accordance with the agreement. The option granted concurrently with the subscription agreement for the right to purchase an additional 2,435,119 common shares at a price of \$10.00 (U.S.) per share lapsed on May 9, 1975 without having been exercised.

Pursuant to an Agreement dated May 27, 1976, Mesa has the right to subscribe for and acquire up to 70,000 additional shares of Common Stock at \$5.00 (U.S.) cash per share. In the alternative, the company may request Mesa to pay a maximum of \$350,000 (U.S.) cash for a promissory note of the company (bearing interest at 125% of a bank prime lending rate) redeemable at the company's discretion, in cash or fully-paid shares of Common Stock issued at \$5.00 (U.S.) per share. This Agreement expires on January 20, 1978. The issue of these additional 70,000 shares to Mesa would increase Mesa's holdings to 634,881 shares, representing 20.8% of the then outstanding Common Stock of the Company.

### b. Options Outstanding

As at September 30, 1976 and 1975 options outstanding were as follows:

#### Officers and Directors

Options to purchase 121,500 common shares exercisable as to 110,000 shares in cumulative installments to 1978 at \$6.00 per share; as to 4,000 shares in cumulative installments to 1977 at \$6.50 per share and as to 7,500 shares to 1979 at \$2.00 to \$2.66 per share.

#### Other Employees

Options to purchase 6,500 (1975 - 7,000) common shares exercisable in cumulative installments to 1979 at \$2.00 to \$2.66 per share.

## NOTE 7 - REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid during the current year to directors and senior officers totalled \$173,000 (1975 - \$154,000).

## NOTE 8 - COMMITMENTS

The company has issued non-interest bearing demand notes aggregating approximately \$104,000 (1975 - \$228,000) to governmental agencies as security for performance or work obligations in respect of normal exploration activities. In addition, the company has commitments for exploratory drilling in the North Sea at an estimated cost of \$1,500,000 (1975 - \$2,200,000).

## Auditors' Report

To the Shareholders of Sunlite Oil Company Limited

We have examined the consolidated balance sheets of Sunlite Oil Company Limited and its subsidiaries as at September 30, 1975 and 1976, and the consolidated statements of earnings, deficit and changes in financial position for the years then ended. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the collectibility of the account receivable referred to in note 2 to the financial statements, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1975 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta  
November 12, 1976

THORNE RIDDELL & CO.  
Chartered Accountants



## Management's Analysis of Earnings

### ITEM NO.

#### ①, ⑥ & ⑪ OIL AND GAS SALES

As we have stated in previous years, it has been the goal of Sunlite's management to build an income flow domestically while also exploring in high potential (also high risk) foreign areas. Our oil and gas sales have reached \$1,139,046 for fiscal 1976, a 60% increase over the previous year. WELL OPERATING and DEPLETION and DEPRECIATION costs have risen in a corresponding manner.

#### ② LEASE SALES

Sunlite has taken a position in coal leases in the Beluga Lake region of Alaska.

Prepayments forfeited by a major company who chose not to exercise their option on certain acreage and the sale of another tract contributed \$81,514 to 1976 income.

#### ③ INVESTMENTS

Income has decreased since funds were withdrawn from investments and used in our foreign exploration programs.

#### ⑦ GENERAL AND ADMINISTRATIVE

These costs have risen as a result of increased activity in both domestic and foreign exploration (exploration expenditures were \$4,167,814 in 1976; \$2,417,792 in 1975) and from the impact of inflation.

#### ⑧ CARRYING CHARGES ON NON-PRODUCING PROPERTIES

The large decrease in this expense results primarily from the surrender of our interest in a 233,000 acre lease play in North Dakota.

#### ⑨ EXPLORATION AND DRY HOLE COSTS

Exploration costs totalling \$290,000 resulted from seismic programs in the U.K. North Sea in preparation for the Fifth Round Bidding; in the Jade Plate area of the German North Sea and in Alberta. Dry hole costs principally reflect the expenditure for three unsuccessful North Sea exploratory wells amounting to \$800,000; five abandonments in Alberta amounting to \$100,000 and an unsuccessful Austin Chalk test in Southwest Texas amounting to \$75,000.

#### ⑩ PROPERTY SURRENDERS AND WRITE-OFFS

These costs reflect the write-offs of U.K. North Sea Block 21/7 amounting to \$490,000; the write-off of our North Dakota acreage amounting to \$116,000; the write-off of our mineral claims in the La Ronge area of Saskatchewan amounting to \$193,000 and the write-off of other acreage in Canada and the U.S.A. amounting to \$110,000.

### PRICE RANGE OF COMMON STOCK ON VANCOUVER STOCK EXCHANGE

|                      | 1976          |               | 1975   |        |
|----------------------|---------------|---------------|--------|--------|
|                      | High          | Low           | High   | Low    |
| First Quarter .....  | <b>\$4.25</b> | <b>\$2.55</b> | \$3.25 | \$1.80 |
| Second Quarter ..... | <b>4.65</b>   | <b>3.20</b>   | 3.40   | 2.10   |
| Third Quarter .....  | <b>5.25</b>   | <b>3.50</b>   | 4.35   | 3.00   |
| Fourth Quarter ..... | <b>4.90</b>   | <b>2.60</b>   | 5.40   | 3.05   |

## Five Year Earnings Summary

|                                                                           | 1976               | 1975             | Change<br>76/75<br>Increase<br>(Decrease) | Item      | 1974             | 1973<br>Restated<br>Note | 1972<br>Restated<br>Note |
|---------------------------------------------------------------------------|--------------------|------------------|-------------------------------------------|-----------|------------------|--------------------------|--------------------------|
| <b>REVENUE</b>                                                            |                    |                  |                                           |           |                  |                          |                          |
| Oil and Gas Sales.....                                                    | \$ 1,139,046       | \$ 710,468       | \$ 428,578                                | (1)       | \$ 445,873       | \$ 139,697               | \$ 38,507                |
| Lease Sales .....                                                         | 81,514             | —                | 81,514                                    | (2)       | 778,186          | 2,005,847                | 23,642                   |
| Investments.....                                                          | 214,989            | 267,234          | (52,245)                                  | (3)       | 293,901          | 193,535                  | 168,909                  |
| Other .....                                                               | 3,659              | 4,292            | (633)                                     | 4         | 15,483           | 2,329                    | 8,490                    |
|                                                                           | <b>1,439,208</b>   | <b>981,994</b>   | <b>457,214</b>                            | <b>5</b>  | <b>1,533,443</b> | <b>2,341,408</b>         | <b>239,548</b>           |
| <b>EXPENSES</b>                                                           |                    |                  |                                           |           |                  |                          |                          |
| Well Operating.....                                                       | 185,135            | 96,315           | 88,820                                    | (6)       | 74,309           | 27,789                   | 13,075                   |
| General and Administrative ...                                            | 532,592            | 444,903          | 87,689                                    | (7)       | 464,394          | 397,736                  | 241,449                  |
| Carrying charges on non-<br>producing properties .....                    | 68,636             | 131,699          | (63,063)                                  | (8)       | 67,495           | 111,126                  | 93,500                   |
| Exploration & Dry Hole Costs..                                            | 1,258,302          | 385,334          | 872,968                                   | (9)       | 208,135          | 375,514                  | 106,309                  |
| Property surrenders &<br>Write-offs .....                                 | 910,521            | 498,036          | 412,485                                   | (10)      | 120,488          | 281,591                  | 440,403                  |
| Depletion and Depreciation ...                                            | 239,159            | 102,324          | 136,835                                   | (11)      | 110,199          | 26,417                   | 7,221                    |
|                                                                           | <b>3,194,345</b>   | <b>1,658,611</b> | <b>1,535,734</b>                          | <b>12</b> | <b>1,045,020</b> | <b>1,220,173</b>         | <b>901,957</b>           |
| Earnings (loss) before income<br>taxes and extraordinary item ..          | (1,755,137)        | (676,617)        | 1,078,520                                 | 13        | 488,423          | 1,121,235                | (662,409)                |
| Recovery of (provision for)<br>income taxes                               |                    |                  |                                           |           |                  |                          |                          |
| Current .....                                                             | 65,533             | 40,000           | 25,533                                    | 14        | (409,601)        | —                        | —                        |
| Deferred .....                                                            | 246,624            | 219,041          | 27,583                                    | 15        | 94,200           | (845,290)                | 88,797                   |
|                                                                           | <b>312,157</b>     | <b>259,041</b>   | <b>53,116</b>                             | <b>16</b> | <b>(315,401)</b> | <b>(845,290)</b>         | <b>88,797</b>            |
| Earnings (loss) before<br>extraordinary item .....                        | (1,442,980)        | (417,576)        | 1,025,404                                 | 17        | 173,022          | 275,945                  | (573,612)                |
| Realization of tax benefit of<br>prior period losses .....                | —                  | —                | —                                         | 18        | 409,601          | —                        | —                        |
| NET EARNINGS (LOSS) NOTE....                                              | <b>(1,442,980)</b> | <b>(417,576)</b> | <b>1,025,404</b>                          | <b>19</b> | <b>582,623</b>   | <b>275,945</b>           | <b>(573,612)</b>         |
| <b>WEIGHTED AVERAGE NUMBER<br/>OF COMMON SHARES<br/>OUTSTANDING .....</b> |                    |                  |                                           |           |                  |                          |                          |
|                                                                           | <b>2,860,748</b>   | <b>2,671,384</b> | <b>—</b>                                  | <b>—</b>  | <b>2,466,156</b> | <b>2,367,932</b>         | <b>2,329,473</b>         |
| <b>PER SHARE (NOTE)</b>                                                   |                    |                  |                                           |           |                  |                          |                          |
| Earnings (loss) before<br>extraordinary item .....                        | (.50)              | (.16)            | —                                         | —         | .07              | .12                      | (.25)                    |
| Realization of tax benefit of<br>prior period losses .....                | —                  | —                | —                                         | —         | .17              | —                        | —                        |
| Net earnings (loss) .....                                                 | \$ (.50)           | \$ (.16)         | —                                         | —         | \$ .24           | \$ .12                   | \$ (.25)                 |
| Dividends .....                                                           | \$ —               | \$ —             | —                                         | —         | \$ —             | \$ —                     | \$ —                     |

NOTE: The earnings for the years ending Sept. 30, 1972 and Sept. 30, 1973 were restated to reflect the retroactive adoption of tax allocation accounting in 1974.



## Directors

PETER M. CLARKE,  
Vice President - Canada,  
Mesa Petroleum Co.  
Calgary, Alberta

J. STEWART FISHER,  
Barrister and Solicitor  
Didsbury, Alberta

GAINES L. GODFREY,  
Vice President - Finance  
Mesa Petroleum Co.  
Amarillo, Texas

DONALD E. HOCKADAY, Jr.,  
Executive Vice President  
of the Company  
Houston, Texas

EDWIN C. JAMES,  
President of the Company  
Houston, Texas

JACK K. LARSEN,  
Group Vice President  
and Director  
Mesa Petroleum Co.  
Amarillo, Texas

BARRY W. SWAN,  
Treasurer of the Company  
Calgary, Alberta

## Officers

EDWIN C. JAMES,  
President

DONALD E. HOCKADAY, Jr.,  
Executive Vice President

J. STEWART FISHER,  
Secretary

BARRY W. SWAN,  
Treasurer

E. CHRISTA HINOJOSA,  
Assistant Secretary

## Head Office

1517 Norcen Tower  
715 - 5th Avenue S.W.  
Calgary, Alberta T2P 2X6

## Branch Office

2500 One Allen Center  
Houston, Texas

## Subsidiary Companies

SUNLITE INTERNATIONAL INC.  
SUNLITE OIL COMPANY (U.K.) LIMITED

## Bankers

CANADIAN IMPERIAL BANK OF  
COMMERCE  
Calgary, Alberta

CONTINENTAL ILLINOIS NATIONAL  
BANK  
Chicago, Illinois

CAPITAL NATIONAL BANK  
Houston, Texas

## Auditors

THORNE, RIDDELL & CO.  
Calgary, Alberta

## Solicitors

J. S. FISHER  
Didsbury, Alberta

KRIST & McMURREY  
Houston, Texas

## Transfer Agent

THE CANADA TRUST COMPANY  
Calgary, Alberta

FIRST NATIONAL CITY BANK  
New York, New York

## Common Shares Listed

VANCOUVER STOCK EXCHANGE

## Description of Business

The company was incorporated March 2, 1945, under the laws of the Province of Alberta, Canada. Sunlite is engaged in the exploration for and development of oil and gas properties and the exploration for mineral properties. Producing interests are held in Alberta, British Columbia and Saskatchewan and in Louisiana, U.S.A. The principal exploratory interests of the company are located throughout Canada and the U.S.A. and in the British, Dutch and German Sectors of the North Sea.

## Annual Meeting and Form 10-K

The Annual General Meeting of shareholders will be held on Monday, December 20, 1976, at ten o'clock A.M. (local time) at the 18th Floor Auditorium of the Norcen Tower, 715 - Fifth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with a proxy statement and information circular and form of proxy, is being mailed with this report.

Sunlite will provide its Form 10-K Annual Report (without exhibits) upon written request from its shareholders. Exhibits are available upon request at a charge sufficient to cover the company's mailing and reproduction costs.

sunlite  
oil  
company  
limited







